

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input checked="" type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Kalamo Township	County Eaton
Fiscal Year End 6-30-06	Opinion Date 9-27-06	Date Audit Report Submitted to State 11-10-06	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

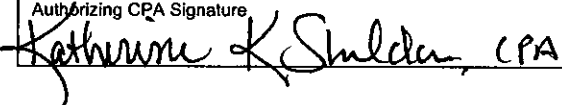
We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

  **Check each applicable box below.** (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Walker, Fluke & Sheldon, PLC		Telephone Number 269-945-9452	
Street Address 525 W Apple St		City Hastings	State MI
		Zip 49058	
Authorizing CPA Signature 	Printed Name Katherine Sheldon, CPA		License Number 1101023575

# **KALAMO TOWNSHIP FINANCIAL STATEMENTS**

**For the year ended June 30, 2006**

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**WALKER, FLUKE & SHELDON, PLC**  
**CERTIFIED PUBLIC ACCOUNTANTS**

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**INDEPENDENT AUDITORS' REPORT**

To the Township Board  
Kalamo Township  
Eaton County, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Kalamo Township, Michigan, as of and for the year ended June 30, 2006, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Kalamo Township, Michigan's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the aggregate remaining fund information of Kalamo Township, Michigan, as of June 30, 2006, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The required supplementary information listed in the table of contents is not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The accompanying financial statements do not present a management's discussion and analysis, which would be an analysis of the financial performance for the year. The Governmental Accounting Standards Board has determined that this analysis is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Kalamo Township's basic financial statements. The accompanying additional supplementary information listed in the table of contents is presented for purposes of additional analysis and are not a required part of the basic financial statements of Kalamo Township, Michigan. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

Hastings, Michigan  
September 27, 2006

*Walker, Fluke & Sheldon, PLC*

**KALAMO TOWNSHIP**  
**GOVERNMENT WIDE STATEMENT OF NET ASSETS**  
**June 30, 2006**

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	<u>Primary Government</u>	
	<b>Governmental</b>	
<b>ASSETS</b>	<b>Activities</b>	<b>Total</b>
Cash and Cash Equivalents	\$ 98,607	\$ 98,607
Investments	362,684	362,684
Receivables (Net)		
Other	6,669	6,669
Accrued Interest	3,683	3,683
Due From State	39,006	39,006
Due From Other Funds	525	525
Capital Assets (Net of Accumulated Depreciation)	<u>87,655</u>	<u>87,655</u>
Total Assets	<u>598,829</u>	<u>598,829</u>
<b>LIABILITIES</b>		
Liabilities		
Accounts Payable	4,400	4,400
Accrued Liabilities	<u>5,428</u>	<u>5,428</u>
Total Liabilities	<u>9,828</u>	<u>9,828</u>
<b>NET ASSETS</b>		
Net Assets		
Invested in Capital Assets, Net of Related Debt	87,655	87,655
Restricted	-	-
Unrestricted	<u>501,346</u>	<u>501,346</u>
Total Net Assets	<u>\$ 589,001</u>	<u>\$ 589,001</u>

The Notes to Financial Statements are an integral part of this statement.

**KALAMO TOWNSHIP**  
**GOVERNMENT WIDE STATEMENT OF ACTIVITIES**  
**June 30, 2006**

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets	
		Charges for Services	Capital Grants	Primary Government	
				Governmental Activities	Total
<b>Primary Government</b>					
Governmental Activities					
Legislative	\$ 9,976	\$ -	\$ -	\$ (9,976)	\$ (9,976)
General Government	75,209	7,509	12,340	(55,360)	(55,360)
Public Safety	24,203	4,335	-	(19,868)	(19,868)
Public Works	71,791	-	-	(71,791)	(71,791)
Health and Welfare	10,231	-	-	(10,231)	(10,231)
Other	11,691	-	-	(11,691)	(11,691)
Total Governmental Activities	<u>203,101</u>	<u>11,844</u>	<u>12,340</u>	<u>(178,917)</u>	<u>(178,917)</u>
Total Primary Government	<u>\$ 203,101</u>	<u>\$ 11,844</u>	<u>\$ 12,340</u>	<u>(178,917)</u>	<u>(178,917)</u>
General Revenues					
Taxes and Penalties				43,940	43,940
Licenses and Permits				163	163
State Grants				122,139	122,139
Interest and Rentals				17,604	17,604
Other				<u>5,826</u>	<u>5,826</u>
Total General Revenues and Transfers				<u>189,672</u>	<u>189,672</u>
Change in Net Assets				10,755	10,755
Net Assets-Beginning				<u>578,246</u>	<u>578,246</u>
Net Assets-Ending				<u>\$ 589,001</u>	<u>\$ 589,001</u>

The Notes to Financial Statements are an integral part of this statement.

**KALAMO TOWNSHIP**  
**GOVERNMENTAL FUND BALANCE SHEET**  
June 30, 2006

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<b>ASSETS</b>	<b>General Fund</b>	<b>Total Governmental Funds</b>
Cash and Cash Equivalents	\$ 98,607	\$ 98,607
Investments	362,684	362,684
Receivables (Net)		
Other	6,669	6,669
Accrued Interest	3,683	3,683
Due From State	39,006	39,006
Due From Other Funds	<u>525</u>	<u>525</u>
Total Assets	<u>\$ 511,174</u>	<u>511,174</u>
 <b>LIABILITIES AND FUND BALANCE</b>		
Liabilities		
Accounts Payable	\$ 4,400	4,400
Accrued Liabilities	<u>5,428</u>	<u>5,428</u>
Total Liabilities	<u>9,828</u>	<u>9,828</u>
Fund Balances		
Unreserved-Undesignated	501,346	501,346
Designated	<u>-</u>	<u>-</u>
Total Fund Balances	<u>501,346</u>	501,346
Total Liabilities and Fund Balance	<u>\$ 511,174</u>	
 <b>Reconciliation of the Governmental Fund's Balance Sheet to the Statement of Net Assets:</b>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds		
Governmental Capital Assets	\$ 173,973	
Less: Accumulated Depreciation	<u>86,318</u>	<u>87,655</u>
Net Assets of Governmental Activities		<u>\$ 589,001</u>

The Notes to Financial Statements are an integral part of this statement.

**KALAMO TOWNSHIP**  
**GOVERNMENTAL FUND STATEMENT OF REVENUE, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCE**  
**For the Year Ended June 30, 2006**

	<b>General Fund</b>	<b>Total Governmental Funds</b>
<b>Revenues</b>		
Taxes and Penalties	\$ 43,940	\$ 43,940
Licenses and Permits	163	163
State Grants	134,479	134,479
Charges for Services	11,844	11,844
Interest and Rents	17,604	17,604
Other Revenue	<u>5,826</u>	<u>5,826</u>
Total Revenues	<u>213,856</u>	<u>213,856</u>
<b>Expenditures</b>		
Current		
Legislative	9,976	9,976
General Government	70,624	70,624
Public Safety	24,203	24,203
Public Works	71,791	71,791
Health and Welfare	10,231	10,231
Other	11,691	11,691
Capital Outlay	<u>19,170</u>	<u>19,170</u>
Total Expenditures	<u>217,686</u>	<u>217,686</u>
Excess of Revenues Over (Under) Expenditures	(3,830)	(3,830)
Fund Balance-July 1, 2005	<u>505,176</u>	
Fund Balance-June 30, 2006	<u>\$ 501,346</u>	

**Reconciliation of the Statement of Revenue, Expenditures and Changes  
in Fund Balance of Governmental Funds to the Statement of Activities:**

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is depreciated over their estimated useful lives:

Expenditures for capital assets	\$ 19,170	
Less: Current year depreciation	<u>4,585</u>	<u>14,585</u>
Change in Net Assets of Governmental Funds		<u>\$ 10,755</u>

The Notes to Financial Statements are an integral part of this statement.



**KALAMO TOWNSHIP**  
**FIDUCIARY FUNDS - STATEMENT OF NET ASSETS**  
**June 30, 2006**

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<u><b>ASSETS</b></u>	<u><b>Trust and Agency</b></u>
Cash and Cash Equivalents	\$ 5
Due from Other Governmental Units	<u>520</u>
Total Assets	<u><u>\$ 525</u></u>
<u><b>LIABILITIES</b></u>	
Liabilities	
Due to Other Funds	<u>\$ 525</u>
Total Liabilities	<u><u>\$ 525</u></u>

The Notes to Financial Statements are an integral part of this statement.

**KALAMO TOWNSHIP  
NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2006**

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**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of Kalamo Township conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by Kalamo Township:

In June 1999, the GASB issued Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments. Significant changes in the Statement include the following:

- Financial statements prepared using full accrual accounting for all of the Township's activities

This and other changes are reflected in the accompanying financial statements (including notes to the financial statements).

**REPORTING ENTITY**

Kalamo Township is situated in Eaton County south of the Village of Vermontville and north of the Village of Bellevue. The Township operates under an elected board of five members and provides services to residents in many areas including fire protection, ambulance and general government services. Education services are provided to citizens through several local school districts, which are separate governmental entities. The accompanying basic financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. Based on the significance of any operational or financial relationships with the Township, there are no component units to be included in these financial statements.

**GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of net assets includes and recognizes all long-term assets and receivables as well as long-term debt and obligations. The Township's net assets are reported in three parts: invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: (1) charges to customers who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meet the operational or capital requirements of a particular function or segment. Taxes and other items are not properly included among program revenues, and are reported instead as general revenue.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

**KALAMO TOWNSHIP  
NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2006**

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**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**MEASUREMENT FOCUS/BASIS OF ACCOUNTING**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Township considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

State grants, licenses and permits, charges for services and interest associated with the current fiscal period are all considered to be susceptible to accrual; therefore, they have been recognized as revenue in the current fiscal period. All other revenues are considered to be measurable only when the Township receives cash.

Taxes Receivable - The Township property tax is levied on each December 1<sup>st</sup> based on the taxable valuation of property located in the Township as of the preceding December 31<sup>st</sup>. These taxes are due on February 28<sup>th</sup>. After that date, they are added to the county delinquent tax rolls.

Although the Township ad valorem tax is levied and collectible on February 1<sup>st</sup>, it is the Township's policy to recognize revenue from the current tax levy in the current year when the proceeds of this levy are budgeted and made "available" for the financing of operations. "Available" means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period (60 days).

The 2005 State taxable valuation of the Township totaled \$38,615,550 on which ad valorem taxes levied consisted of .8483 mills for Township operating purposes, raising \$32,546 for operating purposes.

The Township reports the following major governmental funds:

- The General Fund is the Township's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. Revenues are primarily derived from property taxes and state shared revenue.

Additionally, the government reports the following fund types:

- The Trust and Agency Fund accounts for the assets held by the Township in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

**ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY**

Bank Deposits and Investments - Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

**KALAMO TOWNSHIP**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2006**

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**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY (Continued)**

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds."

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes are levied on each December 1<sup>st</sup> based on the taxable valuation of property located in the Township as of the preceding December 31<sup>st</sup>. These taxes are due on February 28<sup>th</sup>. After that date, they are added to the county's delinquent tax rolls.

The delinquent real property taxes of the Township are purchased by Eaton County. The County sells tax notes and the proceeds are used to pay the Township for these property taxes.

Capital Assets - The Township defines Capital Assets as assets with an initial cost of more than \$250 for furniture, and all other equipment and \$1,500 for buildings and all other improvements and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost. Donated assets are reported at estimated fair market value at the date of donation. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following useful lives:

Buildings	40 years
Land Improvements	20 years
Furniture	10 years
Equipment	7 years
Data Processing Equipment	5 years

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change. Kalamo Township does not have any designations of fund balance.

**STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

Budgetary Information - Budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. This basis is consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for all required governmental fund types. The Township Board prepares the annual budgets prior to June 30. A Public Hearing is conducted to obtain taxpayers' comments. The budget documents present information by fund, function, department and line items. The legal level of budgetary control adopted by the governing body is the department level. The budget figures used are not the original amounts adopted at the beginning of the year. The budget has been amended by the Township Board at regularly scheduled meetings in accordance with the requirements of P.A. 621 of 1978.

**KALAMO TOWNSHIP  
NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2006**

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**EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS**

P.A. 621 of 1978, section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

During the year ended June 30, 2006, the Township incurred expenditures in certain budgetary funds, which were in excess of the amounts appropriated, as follows:

<u>FUND</u>	<u>TOTAL APPROPRIATIONS</u>	<u>AMOUNT OF EXPENDITURES</u>	<u>BUDGET VARIANCE</u>
General			
General Government:			
Elections	\$         500	\$     12,626	\$     12,126
Public Safety:			
Fire Protection	\$     23,500	\$     24,203	\$          703

**ENCUMBRANCE ACCOUNTING**

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditures of moneys are recorded in order to reserve that portion of the applicable appropriation, is not employed by Kalamo Township.

**USE OF ESTIMATES**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**DEPOSITS AND INVESTMENTS**

Michigan Compiled Laws Section 129.91, authorizes the Township to deposit and invest in the accounts of Federally insured banks, credit unions and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Township has designated three banks and two federal savings banks for the deposit of Kalamo Township funds.

The Township's deposits and investments are in accordance with statutory authority.

**KALAMO TOWNSHIP  
NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2006**

**DEPOSITS AND INVESTMENTS (Continued)**

At year-end, the Township's deposits and investments were reported in the basic financial statements in the following categories:

	<b><u>GOVERNMENTAL ACTIVITIES</u></b>	<b><u>FIDUCIARY FUNDS</u></b>	<b><u>TOTAL PRIMARY GOVERNMENT</u></b>
Cash and Cash Equivalents	\$ 98,607	\$ 5	\$ 98,612
Investments	362,684	-	362,684
Restricted Assets	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 461,291</u>	<u>\$ 5</u>	<u>\$ 461,296</u>

The breakdown between deposits and investments is:

	<b><u>TOTAL PRIMARY GOVERNMENT</u></b>
Cash and Cash Equivalents (Checking and Savings Accounts, Certificates of Deposit)	\$ 461,196
Investment in Securities (Mutual Funds and Similar Vehicles)	-
Petty Cash and Cash on Hand	<u>100</u>
Total	<u>\$ 461,296</u>

At June 30, 2006, the Township had deposits with a carrying amount of \$461,196 and a bank balance of \$461,582. Of the bank balance, \$373,493 is covered by federal depository insurance, \$88,089 is uninsured and \$0 is collateralized.

**INTERFUND RECEIVABLES AND PAYABLES**

The amounts of the interfund receivables and payables are as follows:

<b><u>FUND</u></b>	<b><u>INTERFUND RECEIVABLES</u></b>	<b><u>FUND</u></b>	<b><u>INTERFUND PAYABLES</u></b>
General	\$ <u>525</u>	Tax	\$ <u>525</u>
	<u>\$ 525</u>		<u>\$ 525</u>

The interfund receivable and payable represent tax money not yet remitted to the Township General Fund.

**KALAMO TOWNSHIP**  
**NOTES TO FINANCIAL STATEMENTS**  
For the Year Ended June 30, 2006

**CAPITAL ASSETS**

Capital asset activity of the primary government for the current year was as follows:

	<u>BEGINNING BALANCE</u>	<u>INCREASES</u>	<u>DECREASES</u>	<u>ENDING BALANCE</u>
<b>Governmental Activities</b>				
Capital Assets not Being Depreciated				
Land	\$ 28,014	\$ -	\$ -	\$ 28,014
Subtotal	<u>28,014</u>	<u>-</u>	<u>-</u>	<u>28,014</u>
Capital Assets Being Depreciated				
Buildings and Improvements	56,369		-	56,369
Furniture	856	-	-	856
Equipment	55,387	18,781	-	74,168
Data Processing Equipment	<u>14,177</u>	<u>389</u>	<u>-</u>	<u>14,566</u>
Subtotal	126,789	19,170	-	145,959
Less Accumulated Depreciation for				
Buildings and Improvements	21,075	1,157	-	22,232
Furniture	334	77	-	411
Equipment	47,823	2,686	-	50,509
Data Processing Equipment	<u>12,501</u>	<u>665</u>	<u>-</u>	<u>13,166</u>
Subtotal	<u>81,733</u>	<u>4,585</u>	<u>-</u>	<u>86,318</u>
Net Capital Assets Being Depreciated	<u>45,056</u>	<u>14,585</u>	<u>-</u>	<u>59,641</u>
Total Capital Assets-Net of Depreciation	<u>\$ 73,070</u>	<u>\$ 14,585</u>	<u>\$ -</u>	<u>\$ 87,655</u>

Depreciation expense was charged to programs as follows:

Governmental Activities	
General Government	<u>\$ 4,585</u>
Total Government Activities	<u>\$ 4,585</u>

**RISK MANAGEMENT**

The Township is exposed to various risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Township manages its risk exposure and provides certain employee benefits thorough a combination of risk management pools and commercial insurance.

**KALAMO TOWNSHIP**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2006**

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**RISK MANAGEMENT (Continued)**

The Township participates in the Michigan Municipal League for general and automobile liability, motor vehicle physical damage, property damage, and workers compensation coverages. The Michigan Municipal Liability and Property Pool were established pursuant to laws of the State of Michigan, which authorizes local units of government to jointly exercise any power, privilege or authority which each might exercise separately. The purpose of the pool is to jointly exercise powers common to each participating member to establish and administer a risk management program; to prevent or lessen the incidence and severity of casualty losses occurring in the operation of its members; and to defend and protect any member of the authority against liability or loss.

The Michigan Municipal Liability and Property Pool, while it operates under the Michigan Legislation of Public Act 138, does not operate as a risk pool due to a total transfer of risk to reinsurance companies backing the Michigan Municipal Liability and Property Pool. Due to this reinsurance purchase, there is no pooling of risk between members.

The Michigan Municipal Liability and Property Pool chose to adopt the forms and endorsements of conventional insurance protection and to reinsure these coverages 100%, rather than utilize a risk pool of member funds to pay individual and collective losses up to a given retention, and then have reinsurance above that retention amount.

The individual members are responsible for their self-retention amounts (deductibles) that vary from member to member.

The Township also provides employee benefits through the Michigan Municipal League with programs underwritten by commercial insurance carriers.

At June 30, 2006, there were no claims, which exceeded insurance coverage. The Township had no significant reduction in insurance coverage from previous years.



**KALAMO TOWNSHIP**  
**BUDGETARY COMPARISON SCHEDULE - GENERAL FUND**  
**For the Year Ended June 30, 2006**

	<b>ORIGINAL BUDGET</b>	<b>AMENDED BUDGET</b>	<b>ACTUAL</b>	<b>VARIANCE WITH AMENDED BUDGET</b>
Beginning of Year Fund Balance	\$ 505,176	\$ 505,176	\$ 505,176	\$ -
Resources (Inflows)				
Taxes and Penalties	40,600	40,600	43,940	3,340
Licenses and Permits	-	-	163	163
State Grants	122,000	122,000	134,479	12,479
Charges for Services	9,400	9,400	11,844	2,444
Interest and Rents	10,696	10,696	17,604	6,908
Other Revenue	<u>7,700</u>	<u>7,700</u>	<u>5,826</u>	<u>(1,874)</u>
Amounts Available for Appropriation	<u>190,396</u>	<u>190,396</u>	<u>213,856</u>	<u>23,460</u>
Charges to Appropriations (Outflows)				
Legislative	7,000	10,000	9,976	24
General Government				
Supervisor	7,500	7,500	7,470	30
Elections	500	500	286	214
Assessor	9,000	10,500	10,429	71
Clerk	15,000	15,000	13,055	1,945
Board of Review	900	904	904	-
Treasurer	14,500	15,000	14,594	406
Township Hall	2,500	5,000	4,931	69
Cemetery	18,059	20,559	18,955	1,604
Public Safety				
Fire Protection	22,000	23,500	24,203	(703)
Public Works				
Highways	39,437	42,837	42,672	165
Dust Control	26,200	29,119	29,119	-
Health and Welfare				
Ambulance	9,450	10,450	10,231	219
Other	19,500	19,500	11,691	7,809
Capital Outlay	<u>6,441</u>	<u>6,441</u>	<u>19,170</u>	<u>(12,729)</u>
Total Charges to Appropriations	<u>197,987</u>	<u>216,810</u>	<u>217,686</u>	<u>(876)</u>
Excess of Resources Over (Under) Appropriations	<u>(7,591)</u>	<u>(26,414)</u>	<u>(3,830)</u>	<u>22,584</u>
Budgetary Fund Balance-June 30, 2006	<u>\$ 497,585</u>	<u>\$ 478,762</u>	<u>\$ 501,346</u>	<u>\$ 22,584</u>

**KALAMO TOWNSHIP**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND**  
**For the Year Ended June 30, 2006**

	<u>ORIGINAL BUDGET</u>	<u>AMENDED BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH AMENDED BUDGET</u>
<b>Revenues</b>				
Taxes and Penalties:				
Current Property Taxes			\$ 33,380	
Administrative Fees			10,560	
Total Taxes and Penalties	\$ 40,600	\$ 40,600	43,940	\$ 3,340
Licenses and Permits:				
Dog License Revenue			163	
Total Licenses and Permits	-	-	163	163
State Grants:				
State Revenue Sharing			119,564	
Other			14,915	
Total State Grants	122,000	122,000	134,479	12,479
Charges for Services:				
Charges for Services			450	
Fire Runs and Protection			4,335	
Grave Openings			2,900	
Foundations			909	
Sale of Cemetery Lots			3,250	
Total Charges for Services	9,400	9,400	11,844	2,444
Interest and Rentals:				
Interest			16,608	
Rentals			996	
Total Interest and Rentals	10,696	10,696	17,604	6,908
Other Revenue:				
Metro Act			5,136	
Miscellaneous			690	
Total Other Revenue	7,700	7,700	5,826	(1,874)
Total Revenues	190,396	190,396	213,856	23,460

**KALAMO TOWNSHIP**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND (Continued)**  
**For the Year Ended June 30, 2006**

	<u>ORIGINAL BUDGET</u>	<u>AMENDED BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH AMENDED BUDGET</u>
<b>Expenditures</b>				
<b>Legislative:</b>				
Township Board:				
Per Diem and Fees			3,575	
Professional Services			2,140	
Mileage and Expenses			85	
Membership and Training			3,102	
Miscellaneous			<u>1,074</u>	
Total Legislative	<u>7,000</u>	<u>10,000</u>	<u>9,976</u>	<u>24</u>
<b>General Government:</b>				
Supervisor:				
Salary			7,421	
Mileage and Expenses			<u>49</u>	
Total Supervisor	7,500	7,500	<u>7,470</u>	30
Elections:				
Supplies			286	
Capital Outlay			<u>12,340</u>	
Total Elections	500	500	<u>12,626</u>	(12,126)
Assessor:				
Contracted Services			10,000	
Mileage and Expenses			<u>429</u>	
Total Assessor	9,000	10,500	<u>10,429</u>	71
Clerk:				
Salary			9,997	
Supplies			809	
Professional Services			315	
Mileage and Expenses			1,146	
Conferences and Workshops			199	
Printing and Publishing			408	
Miscellaneous			181	
Capital Outlay			<u>389</u>	
Total Clerk	15,000	15,000	<u>13,444</u>	1,556

**KALAMO TOWNSHIP**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND (Continued)**  
**For the Year Ended June 30, 2006**

	<u>ORIGINAL BUDGET</u>	<u>AMENDED BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH AMENDED BUDGET</u>
<b>Expenditures (Continued)</b>				
<b>General Government (Continued):</b>				
Board of Review:				
Wages			750	
Miscellaneous			<u>154</u>	
Total Board of Review	900	904	<u>904</u>	-
Treasurer:				
Salary			10,499	
Supplies			1,661	
Professional Services			765	
Mileage and Expenses			428	
Publishing and Printing			773	
Miscellaneous			<u>468</u>	
Total Treasurer	14,500	15,000	<u>14,594</u>	406
Township Hall:				
Wages			660	
Supplies			37	
Utilities			3,646	
Rental Refunds			250	
Repairs and Maintenance			280	
Miscellaneous			<u>58</u>	
Total Township Hall	2,500	5,000	<u>4,931</u>	69
Cemetery:				
Salary			14,745	
Supplies			2,813	
Mileage and Expenses			277	
Trash Removal			372	
Repairs and Maintenance			510	
Miscellaneous			238	
Capital Outlay			<u>6,441</u>	
Total Cemetery	<u>24,500</u>	<u>27,000</u>	<u>25,396</u>	<u>1,604</u>
<b>Total General Government</b>	<u>74,400</u>	<u>81,404</u>	<u>89,794</u>	<u>(8,390)</u>

**KALAMO TOWNSHIP**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND (Continued)**  
**For the Year Ended June 30, 2006**

	<u>ORIGINAL BUDGET</u>	<u>AMENDED BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH AMENDED BUDGET</u>
<b>Expenditures (Continued)</b>				
<b>Public Safety:</b>				
Fire Protection:				
Contracted Services			<u>24,203</u>	
Total Public Safety	<u>22,000</u>	<u>23,500</u>	<u>24,203</u>	<u>(703)</u>
<b>Public Works:</b>				
Highways:				
Repairs and Maintenance			<u>42,672</u>	
Total Highways	<u>39,437</u>	<u>42,837</u>	<u>42,672</u>	<u>165</u>
Dust Control				
Contracted Services			<u>29,119</u>	
Total Dust Control	<u>26,200</u>	<u>29,119</u>	<u>29,119</u>	<u>-</u>
Total Public Works	<u>65,637</u>	<u>71,956</u>	<u>71,791</u>	<u>165</u>
<b>Health and Welfare:</b>				
Ambulance:				
Contracted Services			<u>10,231</u>	
Total Ambulance	<u>9,450</u>	<u>10,450</u>	<u>10,231</u>	<u>219</u>
Total Health and Welfare	<u>9,450</u>	<u>10,450</u>	<u>10,231</u>	<u>219</u>
<b>Other:</b>				
FICA Contribution	<u>5,000</u>	<u>5,000</u>	<u>3,682</u>	<u>1,318</u>
Insurance, Bonds and Fringes	<u>14,500</u>	<u>14,500</u>	<u>8,009</u>	<u>6,491</u>
Total Other	<u>19,500</u>	<u>19,500</u>	<u>11,691</u>	<u>7,809</u>
Total Expenditures	<u>197,987</u>	<u>216,810</u>	<u>217,686</u>	<u>(876)</u>
Excess of Revenues Over (Under)				
Expenditures	<u>(7,591)</u>	<u>(26,414)</u>	<u>(3,830)</u>	<u>22,584</u>
Fund Balance-July 1, 2005	<u>505,176</u>	<u>505,176</u>	<u>505,176</u>	<u>-</u>
Fund Balance-June 30, 2006	<u>\$ 497,585</u>	<u>\$ 478,762</u>	<u>\$ 501,346</u>	<u>\$ 22,584</u>



**WALKER, FLUKE & SHELDON, PLC**  
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September 27, 2006

To the Township Board  
Kalama Township  
Eaton County, Michigan

We have recently completed an audit of the financial statements of Kalama Township, Eaton County, Michigan for the year ended June 30, 2006. During the course of the audit, the following items came to our attention, which require further comment.

**Budgeting**

P.A. 621 of 1978, Section 17, provides that a local unit should amend the expenditures budget when it appears that the budgeted revenues will be less than anticipated expenditures. In addition, Section 18 provides that a local unit shall not incur expenditures in excess of the amount appropriated.

During the year ended June 30, 2006, the Township over expended in two areas, due to year end audit adjustments. The Township currently monitors the budget and makes amendments periodically. Consideration should be taken at year-end for any known audit adjustments that may arise.

**Disbursements**

During the course of the audit, internal control weaknesses in the expenditure area were as follows:

- 1) Several disbursements were inconsistently posted to the general ledger and coded to incorrect general ledger accounts. This causes inaccurate interim financial statements, which may cause budgeting problems throughout the year.

We recommend that the clerk be given the opportunity to consult with outside professionals on a monthly basis for help with posting of items in question, if needed. This can save the Township in costly bookkeeping fees incurred during the audit.

- 2) Several disbursements were not substantiated with a valid receipt.

Disbursements made by the Township should be supported by proper documentation. Invoices or contracts should support expenditures for goods or services. A signed reimbursement form that specifies the payee, what the expense was incurred for, where the expense occurred, when the expense was incurred and why the expense was incurred should substantiate reimbursements to employees or officials. Applicable invoices or receipts should be attached. The documentation should be filed in an organized manner that is easily assessable.

**General Ledger Cash Should Be Reconciled to the Treasurer's Records Monthly**

During the course of the audit, it was noted that the cash accounts in the general ledger had not been reconciled to the Treasurer's reconciled statements on a monthly basis. Additional bookkeeping work is outside the normal procedures required by an audit and results in additional costs to the Township.

One of the most important internal control procedures is for the Clerk and Treasurer to reconcile their books to the reconciled bank statements for all bank accounts maintained by the Treasurer. This step verifies that all the activity of the Township has been recorded in the Township general ledger.

We recommended that the bank reconciliations be compared to the Clerk's general ledger on a monthly basis. Differences should be investigated in a timely manner. Adjustments should be made to the general ledger as necessary.

We would like to take this opportunity to thank the Kalama Township Clerk and Treasurer for the cooperation and courtesy extended to us during the audit. If you have any questions or need assistance, do not hesitate to contact us.

*Walker, Fluke & Sheldon, PLC*